

Community Development Block Grant **2020 Full Certification – Webinar 5**

Program Income

COMMUNITY DEVELOPMENT BLOCK GRANT

Program Income

- Two Types
 - State Program Income
 - See the Current Annual Action Plan
 - **CDBG Certified Administrator is Required**
 - Local Program Income
 - Housing
 - Economic Development

Definition

- Gross income received by a unit of general local government (UGLG) or subgrantee that was generated from the use of CDBG funds.
—24 CFR 570.489(e)(1)

Program Income Includes:

1. Proceeds from the disposition by sale or long-term lease of real property purchased or improved with CDBG funds except in instances where the proceeds are received more than 5 years after expiration of the grant agreement
2. Proceeds from the disposition of equipment purchased with CDBG funds;
3. Gross income from the use or rental of real or personal property acquired by the unit of general local government or subgrantee
4. Gross income from the use or rental of real property, owned by the unit of general local government or other entity carrying out a CDBG activity

Program Income Includes:

5. Payments of principal and interest on loans made using CDBG funds,
6. Proceeds from the sale of loans made with CDBG funds
7. Proceeds from the sale of obligations secured by loans made with CDBG funds,
8. Interest earned on funds held in a revolving fund account;
9. Interest earned on program income pending disposition of the income;
10. Funds collected through special assessments

Continuing the Same Activity

- Federal regulation allows the State to require the return of program income provided the local government has an opportunity to retain the program income if the program income will be used to continue the activity from which it was derived.
- The State defines “continuing the same project activity”.

Housing

PROGRAM INCOME

What is Housing Program Income?

Any money that is generated from a CDBG housing activity, such as:

- Proceeds from the disposition by sale
- Payments of principal and interest on loans
- Interest earned on the CDBG bank account

Example 1

- The Smith family in Columbus received an Owner Occupied Rehabilitation loan 3 years ago and have a contractual agreement with Columbus to occupy their home for a period of 5 years. The terms of this agreement required 0% interest forgivable loan after occupancy of the home for 5 years.
- The Smith family moved from the home after 3 years. There are 24 months remaining on the agreement. The Smith family needs to repay the 24 months remaining on the agreement out of the sale price to Columbus.
- Columbus must ensure that the funds repaid are deposited into a CDBG designated account and will need to submit the required reports to the DED.

What to do with Program Income?

Local government Program Income options:

- Return program income funds to DED
- Retain the program income within the Local CDBG Program Income Reuse Account and use it for CDBG eligible housing related activities (Continue activity).
- Deposit and use within an existing Local Housing Revolving Loan Fund.
- Establish and deposit in a Local Housing Revolving Loan Fund
- 2019-2020 only: Repurpose the funds to another activity

Example 1 Continued

- Columbus can now reuse the program income to continue the same activity as indicated in their DED approved Program Guidelines and Reuse Plan. They identified that the program income will be used for owner occupied rehabilitation and down payment assistance.
- If the original grant is still open **or** if Columbus received a new CDBG OOR grant from the Department, then the program income must be used first before requesting additional CDBG funds from the Department.

Local Housing RLFs vs. Reuse Accounts

- Local Housing Revolving Loan Fund (RLF)
 - Per 24 CFR 570.489(f), a Revolving Loan Fund is a separate fund established to carry out specific activities which, in turn, generate payments to the fund for use in carrying out such activities.
 - All program income received in the RLF account never loses its identity as program income.
 - These payments to the RLF must be substantially disbursed from the RLF before additional grant funds are drawn from the Treasury for RLF activities. It is not required to be disbursed for non-revolving loan fund activities.

Local Housing RLFs vs. Reuse Accounts

- Reuse Accounts
 - A separate fund established to carry out specific activities that do not generate payments to the account.
 - If the grant is open, program income must be dispersed before additional grant funds are drawn down from the Treasury for grant activities.
 - If grant is closed out, the program income will be considered part of the unit of general local government's most recently awarded open grant, regardless of activity.
 - Subject to "\$35,000 Rule."

Reuse Accounts and the “\$35,000 Rule”

- Per 24 CFR 570.489(e)(2)(i), if at the end of the calendar year, the total amount received in a Reuse Account by the unit of general local government does not exceed \$35,000, it is no longer reported as program income.
- Functionally, we call this “de-obligation.” That income is de-obligated to the unit of general local government.
- Applies to Reuse Accounts only. NOT RLFs.

Reporting Example

Economic Development

PROGRAM INCOME

Resources to Study

- Annual Action Plan
- CDBG Economic Development Program Application Guidelines
- DED's website
- Administration Manual

Federal “Strings” – old funds

- For the purposes of program income, “continuing the same project activity” will be defined depends on 3 scenarios that include:

For local governments with existing program income in an existing Local ED Revolving Loan Fund, or who are currently utilizing the NDO process, continuing the same project activity will include providing assistance for the same CDBG eligible activities as defined in the grantee’s new DED-approved Local Program Income Reuse Plan (also known as a Local Reuse Plan).

- “Old” CDBG ED RLF funds not as restricted

Federal “Strings” – new funds

- For the purposes of program income, “continuing the same project activity” will be defined depends on 3 scenarios that include:
- For newly awarded economic development grantees, program income that was generated from the use of CDBG funds for newly awarded activities may be deposited into a Local ED Revolving Loan Fund. Any program income from the same project activity will include providing assistance to the “same business for the same activity” for which it was originally funded.
- Consider using NDO to avoid these restrictions.

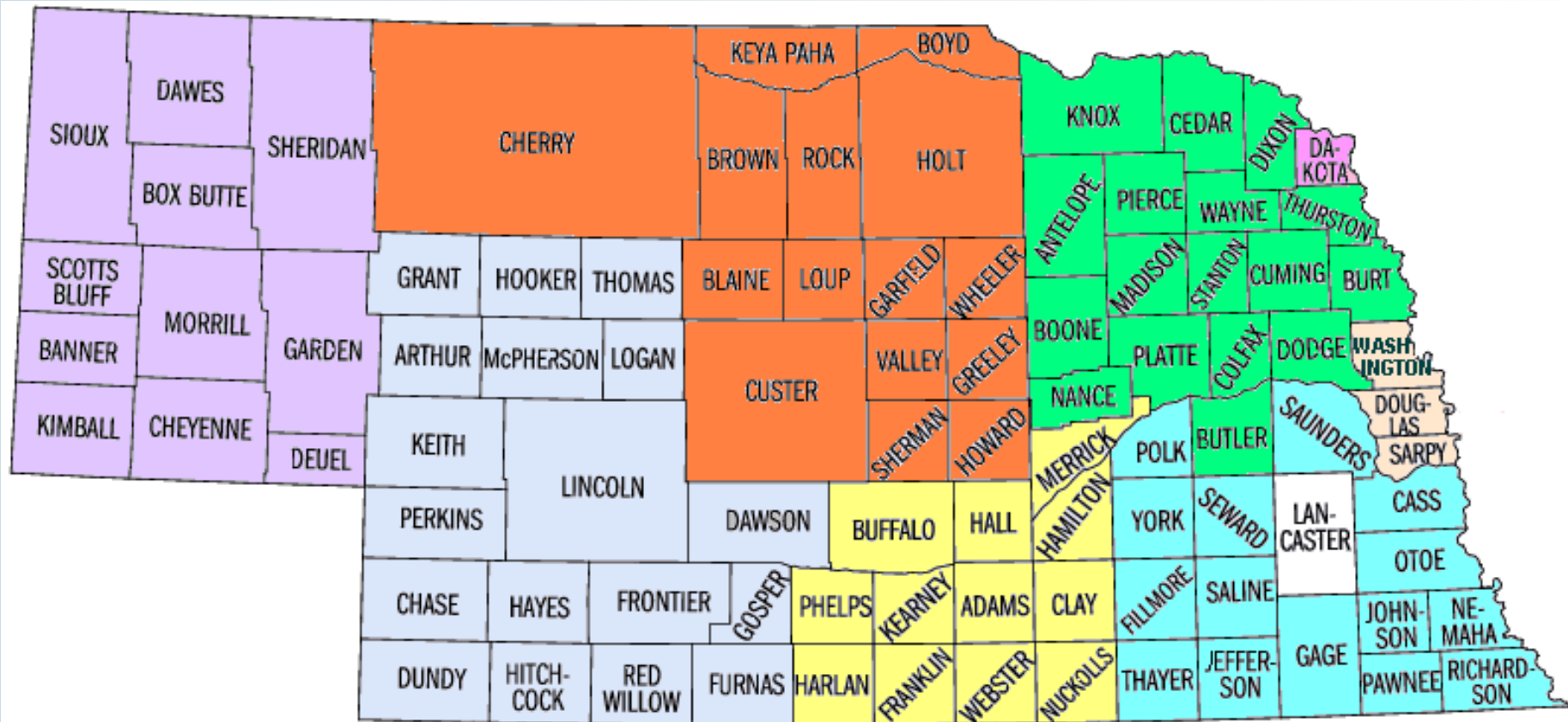
Federal “Strings” -- NDOs

- For the purposes of program income, “continuing the same project activity” will be defined depends on 3 scenarios that include:
- For newly awarded economic development grantees, program income that was generated from the use of CDBG funds for newly awarded activities may utilize the NDO process. Where the NDO process is utilized, continuing the same project activity will include providing assistance for the same CDBG eligible activities as defined in the grantee’s DED-approved Local Program Income Reuse Plan(or according to the NDO’s Reuse Plan).
- NDO’s allow for funds to be “de-federalized” (no federal “strings”)

CDBG & NDOs

- Non-profit Development Organization = NDO
- NDO – non-profit 501 (c)(3), (4), or (6)
- Designated by DED – must have an approved NDO Reuse Plan
- Counties with population of 20,000 or more and service area of Development Districts. (Adams, Buffalo, Hall, Dawson, Dakota)
- One Statewide NDO – Invest Nebraska Corporation
- Cannot be controlled by DED or Local Government
- Generally follow the Development Districts

Nebraska Development Districts



NEBRASKA

Good Life. Great Opportunity.

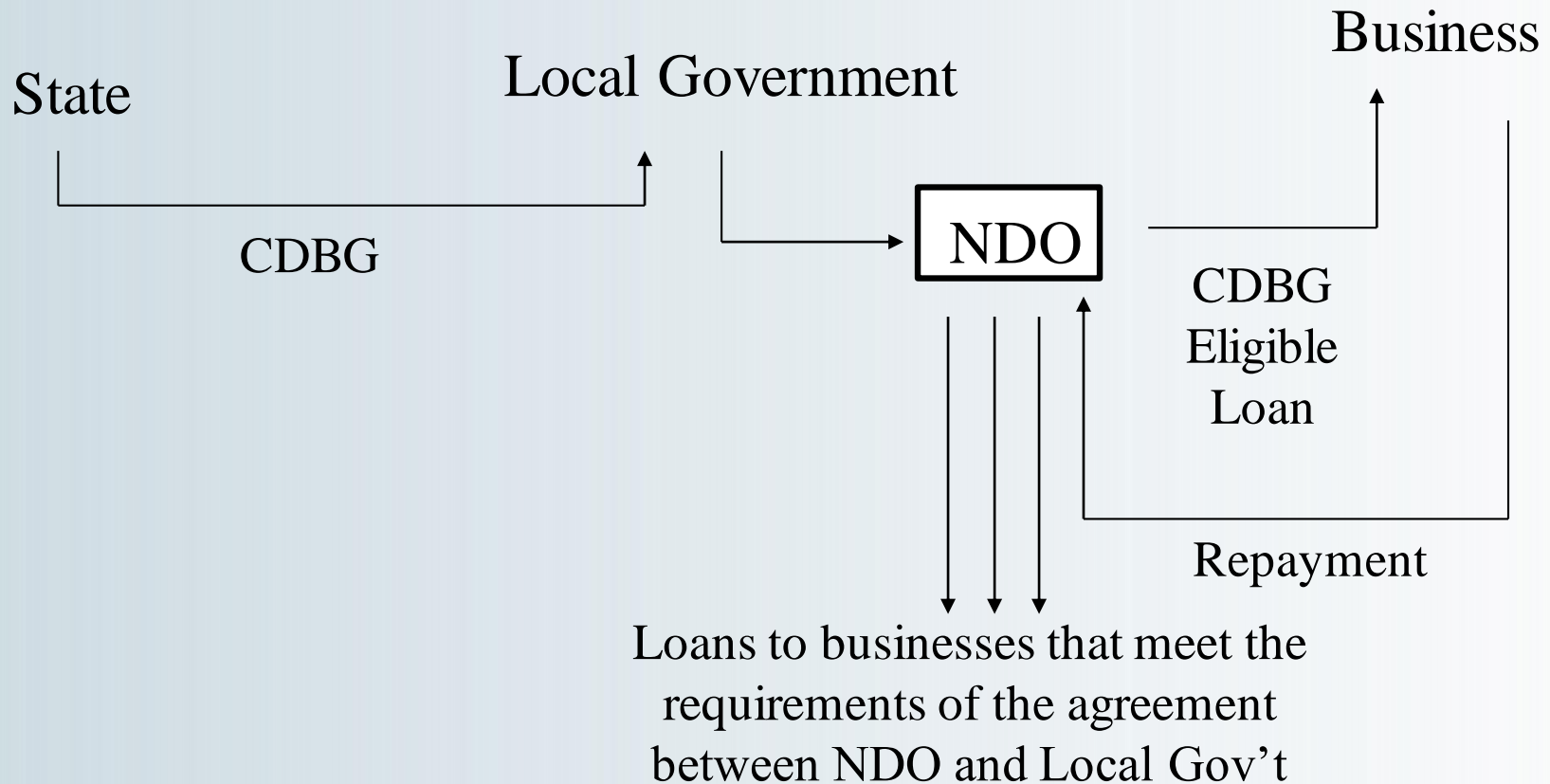
Nebraska Dept of Economic Development

Non-Profit Development Organization (NDO) - STATUS Report

As of: June 30, 2016

Legal Entity Administrating NDO (NDO title)	NDO status
	Good Standing
Central Nebraska Economic Development, Inc. (CNEDD)	active
Hastings Economic Development Corporation (HEDC)	active
Invest Nebraska Corporation (INC) (<i>state wide NDO</i>)	active
Economic Development Council of Buffalo County, Inc. (EDCBC)	active
Northeast Economic Development, Inc. (NED, Inc.)	active
South Central Economic Development District, Inc. (SCEDD)	active
West Central Nebraska Development District, Inc. (WCNDD)	active
Dawson County Area Economic Development Council (DAD)	active
Grand Island Area Economic Development Corporation (GIAEDC)	active
MAPA Foundation (MAPA)	active
Southeast Nebraska Development, Inc. (SEND)	active
Siouxland Economic Development Corporation (SEDC)	active
Pandhandle Regional Development, Inc. (PRD)	active

CDBG “Defederalization”



From Federal Reuse to NDO

- Local Govt uses & contracts with NDO for project. Local Govt subgrants CDBG funds to NDO to carry out grant activity. **Funds are federal dollars. Must follow federal requirements**
- NDO Loans CDBG funds to business. **Funds are federal dollars. Must follow federal requirements.**
- NDO Loans funds to business. **Funds are not federal dollars. No federal requirements.**



**Business repays NDO*

Continuing a Local CDBG ED RLF

- Local Reuse Plan approved by the DED
- DED and Local Government Contract covers this
- Loans can be made within the Local Government's jurisdiction
- Use of a Certified Administrator is required
- Separate Bank Account required
- Requires semi-annual reporting

CDBG Revolving Loan Funds- Balances by UGLG

Nebraska Department of Economic Development
Local Government CDBG Economic Development Program Income
Revolving Loan Fund Balances -- As of June 30, 2019

CDBG ED RLF		CDBG ED RLF	
Community	\$ Balance	Community	\$ Balance
Ainsworth	\$ 25,101	Lancaster County	\$ 410,850
Allen	\$ 22,922	Laurel	\$ 48,920
Atkinson *	\$ 4,273	Leigh	\$ 25,635
Auburn	\$ 41,162	Madison County	\$ 10,715
Beatrice	\$ 306,066	<i>Minden *</i>	\$ 4,718
Blair	\$ 188,693	Nebraska City	\$ 433,715
Buffalo County	\$ 107,092	<i>North Platte *</i>	\$ 5,334
Butte	\$ 100,755	<i>Ogallala / Keith County *</i>	\$ 24,441
Chadron	\$ 21,831	<i>O'Neill *</i>	\$ -
Coleridge *	\$ 5,765	Osceola	\$ 102,367
Columbus	\$ 93,659	Overton	\$ 91,000
Custer County	\$ 376,015	Oxford	\$ 152,508
Dakota City	\$ 62,690	Pawnee City	\$ 591,415
<i>David City *</i>	\$ -	Platte County	\$ 21,176
Dawes County	\$ 22,742	Plattsmouth	\$ 52,300
Dodge	\$ 118,576	Plymouth	\$ 74,985
Elk Creek	\$ 79,979	Ralston	\$ 154,014
Elwood	\$ 54,209	<i>Red Willow County *</i>	\$ -
Fairbury	\$ 40,156	Sargent	\$ 92,933
Falls City	\$ 13,828	<i>Sarpy County *</i>	\$ -
<i>Filley *</i>	\$ 3,500	Schuyler	\$ 368,907
<i>Fremont *</i>	\$ 33	Seward	\$ 143,950
<i>Geneva *</i>	\$ -	<i>Snyder *</i>	\$ 158,935
Gering	\$ 210,957	South Sioux City	\$ 67,164
Gothenburg	\$ 4,040	Stuart	\$ 88,789
Hastings	\$ 99,735	Tekamah	\$ 66,789
<i>Hebron *</i>	\$ -	Thurston	\$ 52,765
<i>Holdrege *</i>	\$ 49,530	Verdigre	\$ 220,665
<i>Howells *</i>	\$ 3,996	<i>Washington County *</i>	\$ 15,499
Jefferson County	\$ 233,764	Wayne	\$ 141,529
Kearney County	\$ 162,544	<i>Weeping Water *</i>	\$ -
Kimball	\$ 158,770	West Point	\$ 142,923
Knox County	\$ 603,335	York	\$ 468,548
		Statewide Total	\$ 7,449,207

* Discontinued Funds
Communities which are returning or have returned CDBG ED Revolving Loan Funds as discontinued are shown in *italic* *

<https://opportunity.nebraska.gov/reports>

Economic Development

PROGRAM GUIDELINES – HIGHLIGHTS

- If UGLG keeps program income in a local RLF, the funds are subject to very restrictive “same business, same activity” rule
- Encouraged to use NDO process to “de-federalize” and regionalize the funds
- DED seeks to encourage existing Revolving Loan Funds to be “re-used” and recycled or “repurposed”
- Local CDBG ED Program Income in Revolving Loan Funds must follow same federal rules as State CDBG, except that:
 - Local Program Income can fund slum & blight and retail
 - Must follow local approved Re-Use plan
 - Local RLF is first CDBG dollar put forth towards project

Financial

COMMUNITY DEVELOPMENT BLOCK GRANT

Setting up a Management System

- Identify a person responsible.
- Establish accounting records.
- Set up bank accounts & establish receipting procedures.
- Establish payment schedules & approval procedures.

This system is evaluated and reviewed during risk analysis and/or monitoring visits.

REFERENCE: CDBG Financial Management Certification Form

Management System

THREE BASIC FUNCTIONS:

1. Must record all financial transactions.
2. All activities must be related to the activities
 - Proposed in the Application and
 - Approved through the NOA/CDBG Contract.
3. All expenditures made in accordance with applicable laws, rules, and regulations.

Management System

Governed by:

- CDBG regulations (24 CFR 570)
- Super Circular (2 CFR 200)
- Department Requirements

7 Key Requirements

per 24 CFR Part 85.20

1. Financial Reporting
2. Accounting Records
3. Internal Controls
4. Budget Controls
5. Allowable Costs
6. Cash Management
7. Source Documentation

Monitoring/Compliance Review:

- risk analysis and/or
- monitoring visit(s).

1. Financial Reporting

- Track costs and expenditures.
- In accordance with the financial reporting requirements of the grant (or subgrant), records of financially assisted activities must be:
 - Accurate,
 - Current, and
 - Complete.

2. Accounting Records

- Track sources and uses of funds.
- Adequately identify the source and use of funds.
- Records must contain information pertaining to
 - grant or subgrant awards and authorizations,
 - obligations,
 - un-obligated balances,
 - assets,
 - liabilities,
 - outlays or expenditures, and
 - income.

3. Internal Controls

- Use established local internal controls, modify as necessary to meet standards.
- **Internal control** is a process for assuring achievement of an organization's objectives in
 - Operational effectiveness and efficiency,
 - Reliable financial reporting, and
 - Compliance with laws, regulations and policies.
- For all grant assets, maintain:
 - Effective control and
 - Accountability.

4. Budget Controls

- By line-item, compare ESTIMATED to ACTUAL costs/expenditures.
- Financial information must be related to performance during the grant implementation.
- Maintain a ledger
 - Obligations
 - Actual Expenditures
 - Status of funding sources, etc.

5. Allowable Costs

- Costs must be **allowable, reasonable, and capable of being allocated**, following:
 - Applicable OMB cost principles,
 - CDBG program regulations, and
 - CDBG contract.
- Compliance Monitoring involves review of:
 - Accounting practices,
 - CDBG-eligible activities, and
 - Charged appropriately.

CDBG-funded Activities and Matching Activities must be eligible.

6. Cash Management

- Proper cash management practices must be utilized.
- Ensure availability of adequate levels of capital.
- Eliminate surprises – particularly local cost-share:
 - Budget for timely progress and
 - Meet regular cash requirement.

7. Source Documentation

- Document all costs and expenditures
 - CDBG and
 - Local cost-share
- Documentation includes:
 - Contracts,
 - Invoices/billings,
 - Cancelled checks,
 - Payrolls,
 - Time and attendance records, etc.
 - And, upon their availability:
 - Bank statements and
 - State transfer records.

Coming up: More on CDBG Policy Memo 17-02.

Accessing CDBG Funds

FINANCIAL

Key Documents

- Notice of Approval/Environmental Clearance
- Release of Funds notice
- Authorization to Request Funds form
- Executed Professional Services Contracts
- Drawdown/Request for Funds Forms:
 - General Administration
 - Project Costs

Notice of Approval / Environmental Clearance and Release of Funds Letter

- May include Environmental Clearance
 - No “choice-limiting actions” before NOA
- Notice of Approval/Environmental Clearance
 - Project can begin, but funding requires ROF
 - If applicable, notice of additional requirements:
 - Tier II ERR, environmental mitigation, etc.
- ROF means Contract Special Conditions are met
- Upon issuance of ROF, grantee may:
 - Drawdown funds for eligible costs incurred and
 - Obligate non-administrative costs.

Authorization to Request Funds

Purpose: Identify the individuals who are authorized to Request CDBG Funds, typically:

- Mayor or Board Chairperson and
- Clerk or Executive Director
- Follow Local Internal Control Policy for accounts receivable and accounts payable.
- Original signatures.
- Keep form current (e.g. change in officials).

NOTE: Request for Funds/Drawdown form require original signatures of both individuals identified on this form.

Professional Services Contract

A contract must be executed for the services provided, if the service is not being conducted by a designated grantee staff member.

Where there exists a grantee-appointed position, a contract for those services specific to the grant and related scope of services/work is required.

- Submit all contracts upon execution.
- Be sure to following timing rules for non-admin.
- BE AWARE of procurement steps (if required)

Request for Funds – General Admin

- Used for General Administration (0181) costs only.
- Guidelines for Submission
 - Minimum: **\$500**
 - **Exceptions:**
 - Final request,
 - Activity has not been drawn for over 180 days, or
 - Other request initiated by DED.
 - Maximum allowable percentage
 - 50% → Completion of the Special Conditions
 - 90% → Prior to submission of closeout documents
 - 100% → Submission of closeout documents

Request for Funds – Project

- Used for project activities only.
- DED prefers a single project draw if possible
- Guidelines for Submission
 - Minimum: **\$1,500**
 - **Exceptions:**
 - Final request,
 - An activity has not been drawn for over 180 days, or
 - Other request initiated by DED.

Payment Methods

Direct Payment: grantee receives the invoice, then submits a Request for Funds form *prior* to paying vendor.

- Once the grantee receives the funds by state transfer, grantee has **5 business days** to issue payment **and** for the vendor to process the payment.
- Due diligence – communication

PREFERRED METHOD

Reimbursement: grantee receives and pays invoices for project costs (both the CDBG share and the local share), then submits a drawdown requests to reimburse local account(s).

Additional Guidelines

- The following must be disbursed prior to requesting additional funds:
 - **Program income** (non-general administrative) and
 - Any **Federal funds on-hand**.
- Grantees **may not earn interest** on the deposit of federal funds pending disbursement.
 - Any interest earned on federal funds is returned to HUD.
- Five-day rule: If more than \$1,000 is on hand for over **five business days**, the local government must return the excess amount to DED.

Additional Guidelines

The request for funds form must:

- Reflect **actual eligible costs incurred**;
 - Claim exact amounts on each reimbursement or
 - Use rounding method,
 - Round down to the nearest dollar on individual reimbursements and
 - claim exact amounts due down to the penny on the final draw;
- Show the **status of all approved activities** even if no funds are requested for one or more activities on that request;
- Show **proportionate local match** for each activity; and
- Be in accordance with the approved budget.

** Approved budget appears in the Sources & Uses of Funds section of your CDBG contract.*

CDBG Policy Memo 17-02

PURPOSE: substantiate expenses that are being requested for reimbursement and/or charged against the grant.

- In conjunction with the on-going compliance review and
- Supplements the risk analysis review.

Department Drawdown Testing

Threshold

Annual by Fiscal Year

First General
Admin Draw

All Requests
>\$100,000

All Requests
for ED
Projects

>25% of the Total
CDBG Project Costs

Final General
Admin Draw

Submitting Source Documentation

- Submit Professional Services Contracts
 - Required for all drawdown requests that include payments for services covered.
 - **BEST PRACTICE:** submit copies of all fully executed contracts upon execution
- Requests are validated against:
 - Source documentation and
 - Professional services contract scope of services/work.

Submitting Source Documentation

DED reviews source documentation to verify financial management compliance in **two stages**:

1. Submission of the drawdown and
2. End of a reporting period.

NOTE: Review will not disrupt the timeliness of the drawdown being processed. However, if the source documentation is not sufficient, this may have an impact on processing of future drawdowns.

Source Documentation – 2 Stages

Stage One – Initial Submission

At the submission of the drawdown, provide:

- Associated invoice(s) for actual eligible expenses.
- For the **first general administrative drawdown**, include a copy of executed professional services agreements (i.e. general administration, engineering, housing management, etc.).

Source Documentation – 2 Stages

Stage Two – Supplemental Materials

At the end of a reporting period, along with submission of PSR, provide:

- Documentation of the transfer of funds from the state, and
- Grantees payments to vendors, staff, and contractors documenting post/transfer date.
 - cancelled check(s) or check image(s),
 - bank statement(s), etc.

NOTE: Supplemental materials substantiate grantee's timely receipt and expenditure of funds in accordance with the financial management process

Annual Testing

If deemed necessary, one drawdown is selected for each grant that requested funds during the fiscal year.

- Selection priority based on highest dollar amount:
 1. Project Drawdown.
 2. Administrative Drawdown.
- Upon DED request, the grantee is required to submit source documentation within 30 days.

Audits

Did the community meet the expenditure requirement for Single Audit?

- This includes all Federal Funding not just CDBG Funds
- \$500,000+ **or** \$750,000+ for fiscal years after December 26, 2014.

If an audit is performed, who did it?

- Were they procured?
 - What method was used?
 - Were they paid with CDBG Funds?
 - Is there a contract?
- Were they appointed?
 - Meeting Minutes documenting appointment?
 - How was this firm/individual selected

Overall

Grantee must follow:

- Proper accounting practices,
- CDBG regulations, other HUD requirements, and
- DED policies and procedures in order to ensure CDBG funds are properly utilized.

BEST PRACTICE: follow the practices previously incorporated to process bills, if necessary, modifying to meet the terms listed above.

How are drawdowns processed?

- All drawdowns are received by DED and routed to the Federal Aid Administrator.
- The Federal Aid Administrator logs in each drawdown within a tracking spreadsheet.
- She reviews the drawdown for the following items:
 - Completeness
 - Threshold Criteria
- Usually drawdowns take about two weeks to process from date received

Checking the Status of Drawdowns

- **Has the department received my drawdown?**
 - Contact program rep or the federal aid administrator
- **How do I know if the drawdown has been processed?**
 - Contact program rep or the federal aid administrator
 - Request to be added on the ACH Notification
 - Check the website: <http://www.statespending.nebraska.gov>
 - There is a lag time of about one month.
- **How can I access a list of all funds provided to a grantee?**
 - Contact program rep or the federal aid administrator
 - Check the website: <http://www.statespending.nebraska.gov>
 - There is a lag time of about one month.

ACH Notification

http://das.nebraska.gov/accounting/forms/ACH_W9_Fillable.pdf

- Step 1
 - Receive authorization from the grantee to be added to the ACH Notification
 - Email correspondence is acceptable.
- Step 2
 - Send authorization documentation to the federal aid administrator
 - Identify the email you'd like to use
- Step 3
 - Federal aid administrator updates the notification recipients
- Step 4
 - Federal aid administrator sends confirmation upon completion